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SUBJECT: Currency in the city - A Diyala Banking Update

¶1. (U) This is a PRT Diyala reporting cable.

SUMMARY

¶2. (SBU) Despite various setbacks in September, October was a very successful month for banking in Diyala. Most significantly, Ministry of Finance contracted money trucks are now being used to transport funds from Baghdad to Baqubah essentially eliminating theft by Iraqi Army security forces. Although assurances of 100 Billion ID shipments have been provided, this has yet to happen necessitating multiple money runs per month to obtain adequate currency supplies.

September marked by currency shortages

¶3. (SBU) Banking in Diyala suffered several setbacks in September. First, the amount of currency released by the Central Bank of Iraq was less than in previous months, and far less than the amount promised and required. The provincial bankers and PRT had received word from multiple Government of Iraq (GOI) and US sources that the shipment would consist of \$75 billion Iraqi Dinar (ID). \$50 billion would be for the monthly government salary and pension requirements, and an additional \$25 billion would be sent as the first installment of the GOI reconstruction funds. Unfortunately, only \$37 Billion ID was actually released, with no explanation as to the reduction. This reduced shipment of money will cause widespread liquidity problems within the province as bankers tap into shallow cash reserves and what is left of customer savings accounts to make up the shortfall.

¶4. (SBU) The second setback was in the capacity of the Iraqi Army to successfully move the monthly currency shipment from Baghdad to Baqubah. In July and August, no money was lost in transit. In September, however, \$317 million ID (approximately \$254,000 USD) was stolen. After being briefly searched by Coalition Forces (CF), the Iraqi Army soldiers who were on the movement were turned over to the Iraqi major crimes unit (MCU) police. It is unclear whether they are being detained or were merely questioned.

¶5. (SBU) After the PRT's bank reconstruction projects came temporarily to a standstill in September, due to QRF funding delays and the end of the U.S. fiscal-year affecting CERP, they are back on track in October. Battle damage assessments have been completed on all of the banks in Baqubah, the scopes of work (SOW) are completed, and contractors have begun reconstruction of the primary bank in the province, Rafadain 14.

October Currency Movements Improve

¶6. (SBU) October saw significant movement toward Iraqi self-reliance in successfully organizing and executing currency shipments from Baghdad to Diyala. Despite the failure of Baghdad to release the full amount of currency requested in October, the currency shipment that was executed on 22 October represents a significant step forward since the mission was completed entirely by the coordinated

efforts of the Iraqi banking system and IA forces - and all funds arrived safely. An initial money movement was scheduled for Sunday, 21 October. However, this movement failed because the IA did not properly coordinate movement through the various IA battle spaces. The Diyala Acting DG of Banking and the IA returned to Baqubah and on their own initiative made arrangements to try again the following day.

¶17. (SBU) At approximately 1330 on Monday, 22 Oct, five Rafadain contracted trucks transporting 50.4B ID arrived in Baqubah from Baghdad. Security for these trucks was provided by the IA, but for the first time since March of 2006 Rafidain fulfilled its transport obligations and provided five contracted vehicles to handle the actual currency. These trucks were not filled to capacity and had they been, no more than three would have been required. The use of Rafidain trucks dramatically decreased the threat of theft by the IA escorts and as a result 100% of the currency released, arrived in Baqubah. The movement was hit by one IED during the return trip, but it detonated between vehicles and only one IA soldier suffered a dislocated shoulder.

¶18. (SBU) Repeating a pattern that has established itself over the last year, prior to the October currency shipment, assurances were given that 100 Billion ID would be sent to Diyala, but only half of this amount was released. The projected fiscal requirement for Diyala for the month of October is 129B ID. The 50.4B ID received amounts to 39% of the month's requirement and 50% of the amount requested by the Governor, necessitating bi-weekly money movements to acquire the remaining needed provincial operating funds.

COMMENT

¶19. (SBU) The viability of the banking system in Diyala has improved

BAGHDAD 00004056 002 OF 002

significantly. Of note was the appointment of a Deputy General for Banking for Diyala. This office is responsible for overseeing all banking operations in Diyala including the planning, coordination and execution of money runs to obtain the currency necessary to conduct provincial business matters.

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